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Royal Group
TECHNOLOGIES

Building a Better World.

Company profile

- Royal Group Technologies Limited is one of North America's largest extruders of polyvinylchloride (PVC) building products, principally serving the custom profile (predominantly window), vertical blind, siding, pipe, fencing, decking and door markets. Royal also manufactures and markets an innovative, pre-engineered, polymer-based building system, known as The Royal Building System™.
- Royal operates 84 wholly owned or joint venture businesses situated in over 100 locations, primarily in Canada, the U.S. and Mexico. The subsidiaries, which operate as individual profit centers, are organized into three groups.
- **The Building Products Group** produces and markets a diversified range of PVC products including custom profiles (predominantly window), vertical blinds, siding, pipe, fencing, decking and doors, primarily for the North American building products industry.
- **The Building Technologies Group** produces and markets a component-based building system which is used to construct a broad array of residential, commercial, institutional and industrial structures.
- **The Support Group** provides materials, equipment, technology, machinery, research and development, transportation and real estate services to all operating units, ensuring a high degree of vertical integration within the Royal Group of Companies.
- Royal is an innovative, technology-based growth company with an increasing global focus. To ensure future growth prospects, Royal is committed to expanding its existing operations in North America and establishing operations globally.

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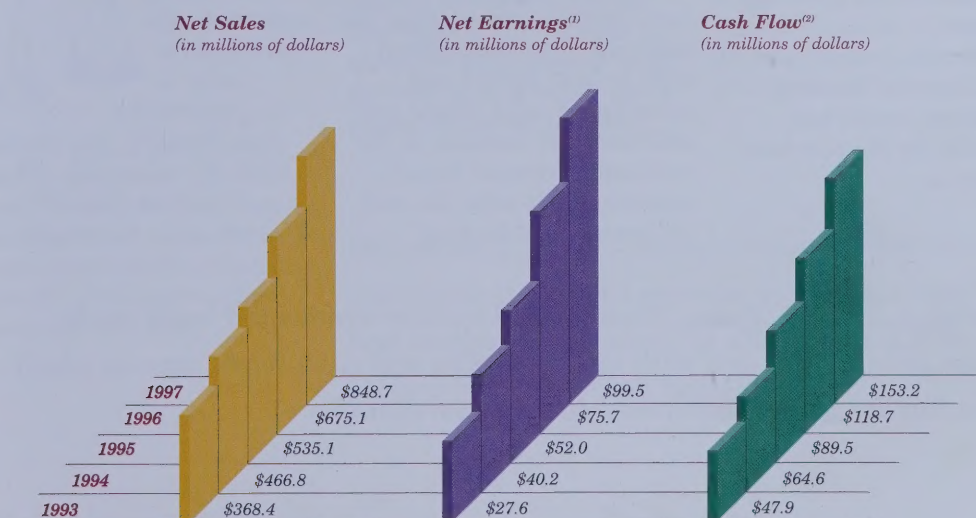
Cover photo: Manufacturing plant for The Royal Building System™ located near Toronto, Canada. This photo illustrates the maximum production capacity of this plant.

Financial Highlights

Years ended September 30, 1997 and 1996

(in thousands of Canadian dollars except per share amounts)

	1997	1996	Percent Increase
Corporate Operating Results			
Net sales	\$ 848,741	\$ 675,092	26%
Operating margin	210,868	167,076	26%
Earnings from operations	154,181	120,599	28%
Net earnings	97,499	75,705	29%
Cash flow ⁽²⁾	153,232	118,741	29%
Corporate Financial Position			
Working capital	228,934	164,907	
Capital spending	270,585	184,038	
Shareholders' equity	648,141	532,370	
Invested capital ⁽³⁾	976,782	669,216	
Total assets	1,168,194	844,670	
Corporate Financial Ratios (%)			
Current ratio	252%	224%	
Funded debt ⁽⁴⁾ to invested capital	30%	19%	
Operating margin	25%	25%	
Return on sales	11%	11%	
Return on average shareholders' equity	17%	17%	
Per Share Data			
Basic earnings per share	\$ 1.21	\$ 0.98	24%
Basic cash flow ⁽²⁾ per share	\$ 1.90	\$ 1.53	24%
Market price at year end	\$ 39.35	\$ 23.25	



(1) 1994-93 pre IPO net earnings and operating margin adjusted on a pro-forma basis

(2) Earnings before minority interest plus items not affecting cash

(3) Aggregate of shareholders' equity, minority interest, funded debt less cash

(4) For the purposes of the calculation funded debt is reduced by cash

The year in review

April 24, 1997

Royal Group Technologies announces agreement to develop a 2160 unit residential subdivision in the Philippines using The Royal Building System™

Toronto, Ontario – The company also announced that it has established a manufacturing joint venture in the Philippines to manufacture components for its unique Building System.

The 2160 unit project is located in San Mateo, a suburb of Manila, Philippines and will house members of the Philippines Teachers Association, which has contracted for the purchase of the units.



April 28, 1997

Royal to acquire PVC extrusion assets

Toronto, Ontario – Royal Group Technologies Limited announced today that it has signed a letter of intent to acquire the PVC extrusion assets and business of CTB Inc., which is principally involved in the extrusion and sale of plastic fence, deck, and dock products. Vic De Zen, Royal's Chairman, President and Chief Executive Officer, commented, "the acquisition provides product lines which comple-

ment Royal's existing fencing and decking products and secures distribution in the heart of a rapidly growing market for vinyl fencing and decking. In addition, it provides Royal with several skilled and experienced sales people who will use their contacts in the midwest to expand Royal's custom profile sales, as well as fencing and decking."

September 16, 1997

Ground breaking in Poland

Toronto, Ontario – Royal Group Technologies Limited announced that it has broken ground for a 242,000 square foot manufacturing facility in Poland.



Located in the city of Polkowice, a special economic zone, the plant will produce vinyl siding, vinyl window profiles and components for The Royal Building System™. The new facility will be constructed using Royal's revolutionary Building System. It is anticipated that construction will be completed during the summer of 1998.

December 3, 1997 – "Today, Royal's \$400 million syndicated bank credit facilities are unused, and with strong profits and cash flows, we can easily finance further growth at favorable financial costs."

October 1, 1997

Royal Group Technologies has closed its US \$165 million private placement of senior unsecured notes to institutional investors.

Toronto, Ontario – Royal Group Technologies Limited announced today that it has completed due diligence and documentation with respect to the private placement of senior unsecured notes, and closed the deal September 30, 1997. Under the terms of the notes, Royal has deferred the receipt of proceeds from the note purchasers to November 13, 1997. The company will

receive US \$50 million from the placement of the Series C notes,

which carry an interest rate of 6.84% and mature November 14, 2002, and US \$115 million from the placement of the Series D notes which carry an interest rate of 7.10% and mature November 14, 2007.



October 8, 1997

Royal Group Technologies announces Cdn \$22 million order for The Royal Building System™.

Toronto, Ontario – Royal Group Technologies Limited announced today that it has received an order for the supply of components of The Royal Building System™ to Sakhalin Island, which is located in eastern Russia. The System will be used to construct 800 housing units for victims of a recent earthquake which hit the area.

November 3, 1997

The Royal Building System™ receives key US building code approval

Toronto, Ontario – Royal Group Technologies Limited announced today that The Royal Building System™ has received approval from BOCA Evaluation Services Inc. (Building Officials and Code Administrators) in the USA. The approval allows builders in certain north-eastern and north central



states to construct various residential, commercial, industrial and institutional structures using The Royal Building System™. Similar approvals have now been received in over 25 countries around the world, including Japan, Canada, China, Russia, Argentina and the Philippines.

December 3, 1997 – Royal Group Technologies continues its record growth with fiscal 1997 sales and earnings increases of 26% and 29%, respectively, over the previous year.

Message from the Chairman



1997 was a success by all measures.

Royal achieved record sales and profit performance again in fiscal 1997. As the year progressed, sales momentum built for new products, including Royal Outdoor Product's storage sheds and The Royal Building System™. This sales momentum coupled with international manufacturing expansion and new market penetration, positions Royal for continuing growth in the years ahead.

Sales and Earnings Set New Records

During the last three years, we achieved a compound annual rate of sales growth of 22%, exceeding our target of 20% per annum. More importantly, net earnings grew at a compound annual rate of 35% during the same period.

During the fiscal year ended September 30, 1997, sales reached \$848.7 million, exceeding 1996 sales by 26%. In addition to posting sales increases in each of our core building product segments, we experienced increasing sales momentum for The Royal Building System™ and other new products. International sales rose to 7.0% of overall sales, from 5.6% in 1996, reflecting the successful international roll-out of both The Royal Building System™ and core building products.

Net earnings for the year were \$97.5 million versus \$75.7 million in 1996, representing a 29% increase. EBITDA margins increased slightly from 24.7% in 1996 to 24.8% in 1997, despite accelerating investments in the development and start up of new ventures.

Earnings per share increased 24% to \$1.21 in 1997. The weighted average number of shares rose to 80,837,502 in 1997, up from 77,597,058 shares in 1996, mainly as a result of exercises of options by employees.

Royal shares responded favorably to interim financial results and to progress with corporate initiatives, rising 69% during the fiscal year. Since Royal's IPO on November 30, 1994, investors have realized a return of over 200%.

The Building Products Group

During 1997, The Building Products Group was successful in gaining North American market share, introducing new products and penetrating international markets.

Many new building products were introduced during the year, including a line of high quality horizontal Venetian style blinds which simulate the look of fabric. The roll out of vinyl fencing and decking products in

North America gained momentum through the year. Sales momentum also built for the siding division's new Cedar Blend line of laminated vinyl siding that replicates the true natural richness of real cedar. These products and many others, too numerous to mention, should significantly contribute to future growth of The Building Products Group.

During the year, we began production of vinyl window profiles at recently constructed Building Technologies plants in Argentina and Colombia, bringing the total number of plants producing custom profiles to 30. Construction of a plant in Poland commenced, which will produce siding and vinyl window profiles for the Eastern European market, once completed in 1998. We are exploring opportunities to produce blinds in South America and Europe to accommodate increasing international demand, as blinds are now marketed in over 30 countries around the world.

A series of acquisitions made during the year serve to broaden Royal's distribution for Building Products and expand the line of products offered to customers. Baron Metal's commercial doors complement Royal's line of doors and serves as a key input to

A series of acquisitions made during the year serve to broaden Royal's distribution for Building Products and expand the line of products offered to customers.

The Building Technologies Group's entry into commercial and industrial market segments. Through the acquisition of Plastic Trends, Royal gained a line of pipe fittings, which allows the marketing of more complete municipal pipe systems.

The acquisition of CTB's extrusion business provides PVC fence and deck product lines which complement Royal's, adding a third manufacturing location for fencing and decking and significantly expanding distribution. Finally, the acquisition of the distribution arm of Reynolds Aluminum Company of Canada Ltd.'s Construction Products Division adds complementary siding distribution in Canada.

The Building Technologies Group

We are very pleased with the progress made in The Building Technologies Group during fiscal 1997. Orders for the System increased all over the world, applications for the System expanded, new building code approvals were received and a number of large projects using the System went to the drawing boards.

To accommodate increasing demand, we added capacity at our Toronto plant and commenced production at strategic locations around the world. In September of 1997 our plant in Argentina went into production, followed by Colombia in October, Mexico in December and China in January. Worldwide capacity for the System now totals over \$150 million annually.

At close of fiscal 1997, the worldwide backlog for The Royal Building System™ stood at over \$90 million.

We began construction of a plant in Poland in the fall of 1997, which will produce core building products in addition to the System, once completed in 1998. We have contracted for the purchase of land for a plant in the Philippines and expect that construction will be completed by the close of calendar 1998, bringing the total number of System plants in production at that time to seven.

Applications for the System continued to broaden during the year, including car washes erected by Shell Oil in the USA, retaining walls in Hawaii and cellular telephone receiving stations in Argentina. Large-scale construction of institutional buildings, such as 19 schools in Argentina erected in just 90 days, reflect the commercial success of the System in applications created in previous years.

At close of fiscal 1997, the worldwide backlog for The Royal Building System™ stood at over \$90 million. This backlog, combined with the many large-scale commercial, institutional, industrial and residential projects on the drawing boards, creates an exciting future for the System.

Royal Outdoor Product's line of maintenance free, durable and easy to assemble backyard storage sheds had outstanding consumer acceptance during fiscal 1997! Introduced just two years ago, Royal's sheds are now marketed in over 1000 stores, such as Home Depot, Heckingers and Menards. An aggressive marketing program, including national in-store support, point of purchase advertising and a 1-800 help line was launched in the fall of 1996, creating consumer interest which has led to escalating sales. During calendar 1997, approximately 25,000 storage sheds were sold and we expect sales to reach 80,000 storage sheds in 1998.

Global Expansion

While some economies around the globe have faltered in recent days, it is our belief that the demographics of many of these countries continue to present enormous growth potential, particularly for necessities like shelter. Our approach to global expansion has been

pragmatic, considering the risks associated with entering particular markets, minimizing those risks and diversifying our global presence.

Our manufacturing facilities now occupy over 5 million square feet, as a result of a 2 million square foot expansion undertaken in 1997. Expansion was broad based, adding capacity to The Building Products Group, The Building Technologies Group and The Support Group throughout the world. This expansion, together with the planned addition of 1 new plant per month in 1998, prepares us for the growth we see ahead.

We are proud to say that 20 plants have now been ISO 9000 registered, increasing worldwide recognition of Royal as a quality manufacturer.

Recent acquisitions of an extrusion equipment manufacturer as well as a designer and manufacturer of automated materials handling systems, both located in Europe, are key elements of our international expansion. They allow us access to the equipment we need to grow and the technology we need to keep our edge.

With shareholders' equity of \$648 million and funded debt as a percentage of total capitalization of 30%, our balance sheet is strong and capable of funding our North American and international expansion programs. In November of 1997, we completed the private placement of \$US165 million of senior unsecured notes, carrying a 7.02% blended rate over five and ten year periods. This placement leaves us with an available operating line of credit facility of \$400 million and approximately \$100 million in the bank. Royal ended the year with a strong working capital position of \$228.9 million.

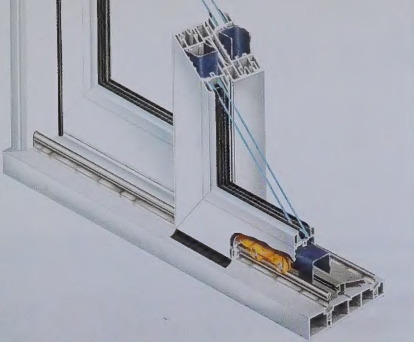
Strong Today, Stronger Tomorrow

Increasing international sales coupled with escalating sales of new products and strengthening North American market positions in core building products, situates Royal for broad based growth in the years ahead. With the people, the technologies, the production capacity and the determination, we will strive to triple the size of Royal in 5 years, while continuing to focus on the bottom line.

I would like to thank our employees, customers, suppliers and shareholders for help in making Royal strong today and stronger tomorrow. Together, we are building a better world!



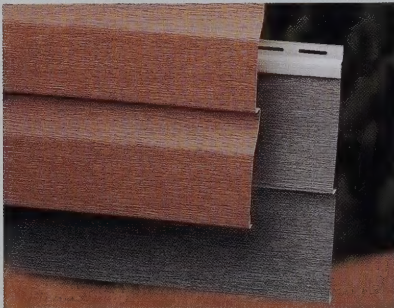
Vic De Zen, Chairman, President and C.E.O.
January 8, 1998



Custom profiles



Blinds



Siding



Pipe and fittings



Doors



Deck



Fence ▶

The Building Products Group

Custom Profiles

Royal's custom profile business incorporates extruded vinyl profiles used in window framing, door framing, appliance, furniture and transportation industries. Today, the majority of sales emanate from vinyl window profiles, where Royal is the dominant competitor, having an estimated 27% share of the North American marketplace.

Royal's extensive vertical integration, involving the manufacture of tooling quickly and inexpensively, is one of the factors contributing to continuous market share gains in the vinyl window profile market. This same distinctive competence allows penetration of new markets, such as garage doors and truck doors.

During fiscal 1997, vinyl fencing and decking products were successfully introduced across North America. The acquisition of CTB's extrusion business in Indiana (renamed Royal Crown) added a third manufacturing location for fencing and decking, broadened Royal's product line and significantly expanded distribution in North America. During 1998, a do-it-yourself line of vinyl fencing and decking will be introduced to home improvement retailers, giving Royal a presence in all North American distribution channels.

Blinds

Royal's strategic approaches to the blind marketplace provided strong sales gains in 1997 and position the Group for continuing growth in the years ahead. The blind division continued to be a fashion leader in the market, introducing products such as high quality two inch wide Venetian styled blinds, which provide colors and textures which simulate fabric.

The blind division also increased its penetration of the

stock size segment of the vertical blind market in North America, adding two major North American home improvement store chains. Royal's presence in this sector, particularly in areas of North America experiencing strong home building, position the Group for continued growth in this sector.

A sales team was deployed in 1997 to develop target international markets. Today, blinds are shipped to over 30 countries around the world, from manufacturing operations located in Canada, the USA and Mexico. Plans are being formulated to establish manufacturing operations in South America and Europe.

Siding

The market for PVC siding continued to grow during 1997 at an attractive pace, as PVC siding became increasingly utilized in the new home construction segment of the market. However,

Royal's strategy of targeting the higher end of the PVC siding market with upscale products, differentiated on the basis of features, warranty and installation assistance, served the company well in 1997.

competition intensified as a result of over-capacity. Consolidation of competition within the industry continued during 1997, which is expected to result in more marketplace stability in the years ahead.

Royal's strategy of targeting the higher end of the PVC siding market with upscale products, differentiated on the basis of features, warranty and installation assistance, served the company well in 1997. One example of an upscale product is Royal's new Cedar Blend line of PVC laminat-

ed siding which replicates the rich graining of cedar and provides darker finish colors. Shown in the opposite picture, Cedar Blend was well received throughout North America in 1997.

Royal also benefited from its strategy of penetrating growing foreign markets, such as eastern Europe and South America, where competition is relatively less intense.

Pipe

The market for pipe in Canada was generally buoyant during 1997 as a result of strong new home construction. Royal strengthened its position within the market, adding a line of high quality fittings to the product offering through the acquisition of Plastic Trends, Inc. of Michigan. Royal now offers a more complete line of pipe and fittings to municipal infrastructure contractors, who are offered one stop shopping for their municipal piping needs.

Doors

Royal's door product line was expanded through the acquisition of Baron Metal Industries. Baron's line of metal commercial and industrial doors complements Royal's line of steel clad residential entry doors and PVC patio door systems. It also serves as a key component for Royal's entry into the commercial and industrial sectors of the construction market with The Royal Building System™.



Left: The first Shell Car Wash erected in Houston, Texas in just 2 days.

Applications of The Royal Building System™



*Language Arts Institute
at University del Norte in
Barranquilla, Colombia.*



*Above and left: One of 19 schools ranging
in size from 16,500 sq. ft. to 24,000 sq. ft.,
built in the province of Buenos Aires,
Argentina in just 90 days.*

*Right: 80 homes built in the town of
Peclaw, Poland in 24 days.*



*Above: 15 unit, 2 storey townhouse complex, St. Maarten, Caribbean
Right: 75 homes built in the province of Buenos Aires, Argentina
in 1993.*



Building Technologies Group

The Royal Building System™ is a revolutionary construction technology that involves the use of modular polymer panels which incorporate concrete in the structural components of the System. This patented System, which was introduced in 1991, has been used with increasing frequency around the world in residential, industrial, institutional and commercial construction. The advantages of the System include its affordability, durability, ease of construction and environmental friendliness.

During 1997, many projects graduated from the drawing board to the construction site, resulting in orders for Royal, including the following:

Project	Value
800 home project in Russia	\$40 million
2160 home project in Philippines	\$10 million
400 home project in Argentina	\$ 5 million
460 unit Resort and Casino in St Kitts	\$14 million

These projects, combined with a series of others in various geographic locations, provide a worldwide backlog of over \$90 million as of the time of this report.

Applications for the System continued to broaden during the year. Shell Oil erected its first car wash using the System in February in Houston Texas in just two days. Shell was so pleased with the ease of construction, ease of maintenance, durability and affordability that over 50 car washes were ordered by year end. Other structures such as convenience stores, kiosks and service centers are on Royal's drawing boards.

The advantages of the System include its affordability, durability, ease of construction and environmental friendliness.

The Province of Buenos Aires, Argentina erected 19 schools with the System in just 90 days, compared to conventionally constructed schools which typically require 5 to 6 months to erect. Similarly, in the metropolitan Toronto area, 100,000 square foot plants have been erected in less time than with conventional block construction.

A number of new building code approvals were received during the year, bringing the total number of countries in which the System is approved to over 25. Most noteworthy was the approval by BOCA (Building

Officials and Code Administrators) in the USA, allowing certain commercial, industrial, institutional and residential construction in the northeast and north central USA. Two other US code approvals, which are expected to be obtained in early 1998, will allow Royal to build across the USA.

In response to growing worldwide demand, production capacity was added throughout

the world. Production began in Argentina in September, followed by Colombia in October, Mexico in December and China in January. Capacity was increased at the plant in Toronto as well. In calendar 1998, production is expected to commence at plants in Poland and the Philippines.

With demand for the System mounting and production capacity coming on stream in an orderly fashion, the System is well positioned for growth. The Building Technologies Group will strive to generate 25% of overall corporate revenues in the year 2000 and 40% in 2002.



Ocean side villa, Baja, Mexico.



57 home subdivision in Antigua, Caribbean



75 homes in northern Saskatchewan built by First Nations Indian Band members.

Manufacturing plants for are being established

Applications for the System continued to broaden during the year, including car washes erected by Shell Oil in the USA, retaining walls in Hawaii and cellular telephone receiving stations in Argentina. Large scale construction of institutional



Exterior view of manufacturing plant, Argentina

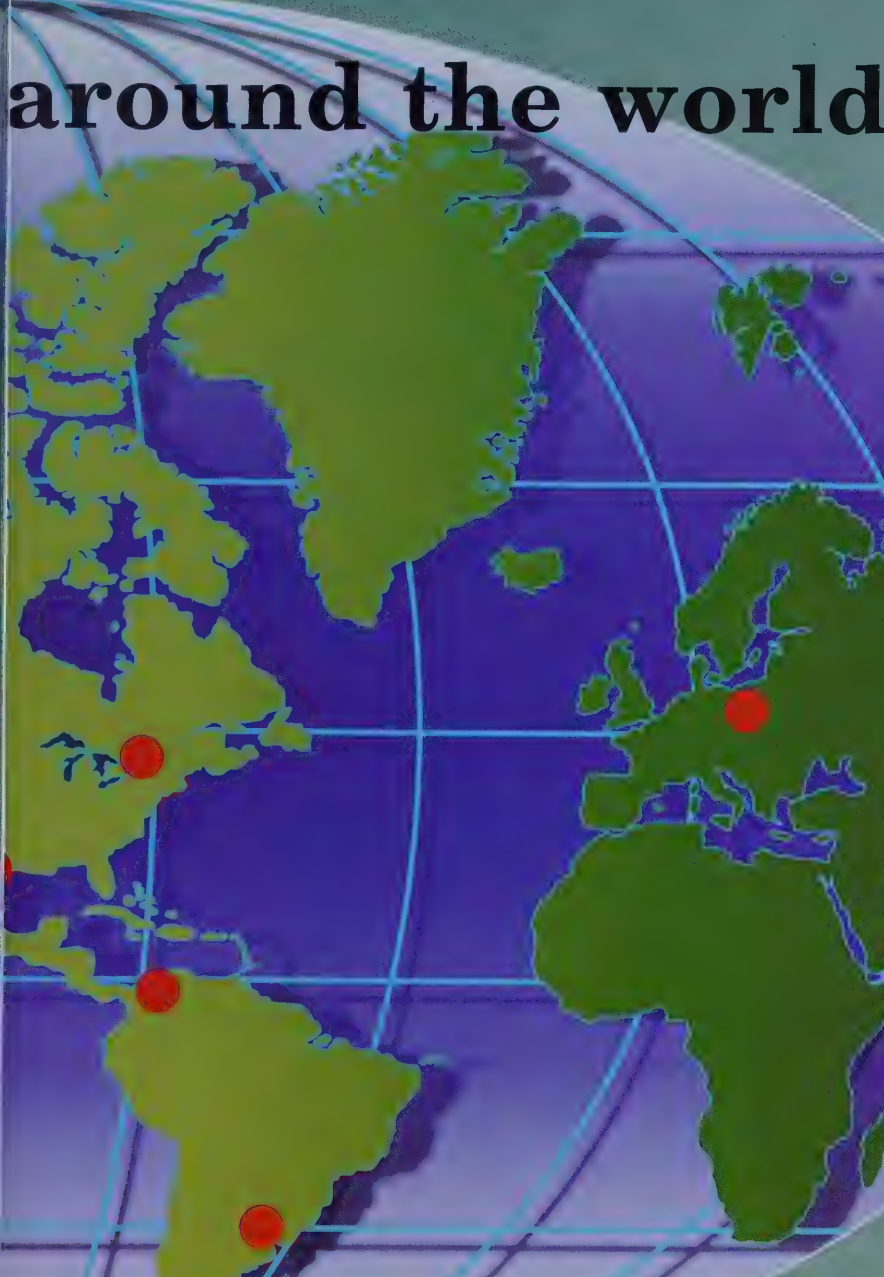


Exterior view of manufacturing plant, Argentina



Exterior view of manufacturing plant, Argentina

The Royal Building SystemTM around the world.



buildings such as 19 schools in Argentina erected in just 90 days, reflect the commercial success of the System in applications created in previous years. Worldwide capacity for the System now totals over \$150 million annually.



Exterior view of manufacturing plant, Mexico



Exterior view of manufacturing plant, Mexico



Approximately 100,000 sq ft of manufacturing space, Mexico

New Products



Royal Outdoor Product's storage shed



Basement foundation systems



Garage constructed from The Royal Building System™

Royal's approach to new product selection is to develop those which are capable of performing well in various stages of market cycles and in various locations around the world. The Royal Building System™ has produced a number of derivative products which can be broadly marketed, such as storage sheds, gazebos, garages and basement foundations. These products also serve to pull through core building products, such as siding, window profiles, doors and roofing materials.

Storage Sheds

Royal Outdoor Products Limited introduced a line of outdoor storage buildings in 1995 which are now distributed through over 1000 home improvement retail stores, such as Home Depot, Menards and Heckingers stores located across North America.

Prefabricated shed kits are made from polymer panels which slide together to facilitate quick and easy installation by homeowners. A typical shed can be erected in just 3 to 5 hours using only a hammer and a screwdriver. Unlike competitive products, such as wood or aluminum, Royal's sheds are virtually maintenance

free, resistant to rot, mildew and insect infestation.

Shed demand reached approximately 25,000 units in calendar 1997, its second season on the market. It is expected that shipments will reach 80,000 units in 1998.

Basement Foundation Systems

During 1996, Royal introduced a basement foundation system for conventionally built homes as well as homes made from The Royal Building System™. This revolutionary system utilizes 8 inch thick panels which incorporate 2 inches of factory installed insulation to provide a pre-engineered basement foundation form which simply slides together to provide a permanent form for concrete.

The system provides homeowners a leak resistant, insulated basement with durable finished walls. While the system initially costs homeowners a slight premium to a conventional basement surface which is unfinished concrete, the additional features provided by the system represent a substantial savings over costs which would be incurred to provide such features on a retrofit

basis. Unlike wood forms used in conventional basement foundation pouring, Royal's panels are light and easy to maneuver, which has been received well by construction trades people who have worked with the system.

Building code approvals in Canada and U.S. are expected shortly, positioning the product for widespread geographic introduction during the 1998 construction season.

Garage

During 1996, Royal developed a garage product line manufactured from The Royal Building System™. The garage product line is targeted to replace detached wooden garages, which have rotted and become structurally unsound. Royal's garages are durable, easy to construct and virtually maintenance free. The garage was introduced in the United States through the Overhead Door dealer network. In 1998, it will also be introduced through major home improvement retailers, including Home Depot, to both the contractor and the do-it-yourself market segments.

Building a Better World

Royal's focus on Building a Better World continued through 1997. Products were developed which provide longer life spans for homeowners, recycling efforts were increased and extensive testing of various products was undertaken which confirmed that our products improve the lifestyles of those who buy them.

Indoor air quality is an issue of increasing interest in our society. Much has been written on sick building syndrome, which is defined as a building in which the air quality compromises the health of its inhabitants. We are proud to say that the quality of air in buildings built from The Royal Building System™ has been shown to be better than with conventional construction. Testing done by an independent laboratory shows

and land slides without structural damage, in Mexico the System stood up to a hurricane and in Guam repeated typhoons failed to cause structural damage to our homes.

It is interesting to note that naturally occurring wind storms have increased in frequency, creating an environment where The Royal Building System™ has excelled. The System's superior performance has been noted by insurance

companies in Guam, where premium rates are generally lower for the System as a result of its proven durability.

Testing done by an independent laboratory shows the levels of airborne volatile organic compounds, which are frequently associated with adverse health reactions, are dramatically less in a Royal structure than in a conventionally built structure.

the levels of air born volatile organic compounds, which are frequently associated with adverse health reactions, are dramatically less in a Royal structure than in a conventionally built structure.

The Royal Building System™ continues to be tested in natural settings as well as in laboratories. Hurricanes, earthquakes and typhoons troubled the world during 1997. Once again, The Royal Building System™ stood up to mother nature. In the Philippines the System survived typhoons

Royal has always focussed on products which have superior longevity. For instance, vinyl windows generally have a life expectancy significantly longer than windows built from conventional materials. New applications for PVC construction products, such as garage doors, fencing, decking and gazebos, continue to be created by Royal, for consumers who want more longevity from their home improvement investments.



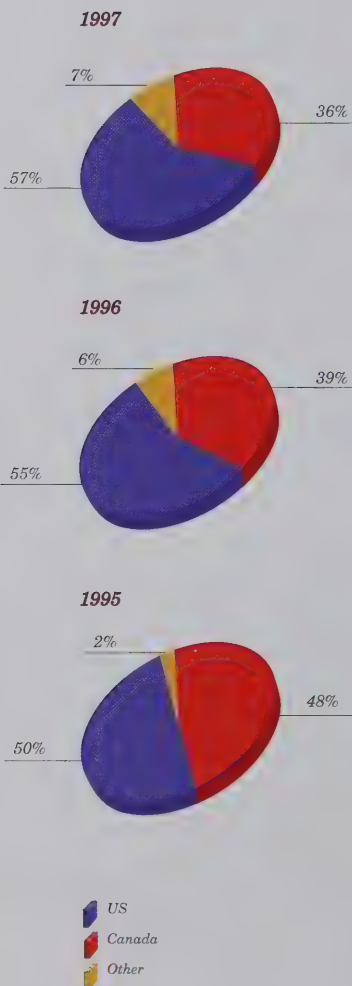
Together we're building a better world.

Plastic recycling continues to be a major focus at Royal. Capacity is being increased at Royal's PVC recycling facility by 50% to respond to growing application of recycled polymer in certain products.

Royal Ecoproducts Limited commenced trading as a public company on May 13, 1997, with Royal Group Technologies Limited retaining a 74.3% interest. Eco's revolutionary technology combines various types of plastic scrap with high levels of organic filler material, such as sand, then efficiently molds products, including door frames and roofing panels which look like slate. Royal Group Technologies will continue to provide management expertise to Eco and will utilize Eco's technology to develop and introduce a series of affordable, environmentally friendly building products.

Management's Discussion and Analysis

**Sales by Geographic Region
(percentage)**



Royal is primarily engaged in the extrusion of PVC building products and building systems for sale in the North American renovation/remodeling and new construction industries, and more recently in international markets. Royal is an innovative, technology based growth company and a low cost producer in its industry.

Results from Operations

The following discussion has been prepared by management and is a review of the company's operating results and financial position for the years ended September 1997, 1996 and 1995 and based upon accounting principles generally accepted in Canada. All amounts are in Canadian dollars unless specified otherwise.

This discussion and analysis of the Company's operations have been derived from and should be read in conjunction with the Consolidated Financial Statements and accompanying notes thereto appearing elsewhere in this Annual Report.

The following table discloses the Company's Statements of Earnings for the years ended September 30, 1997, 1996, and 1995.

	1997	1996	1995
Net Sales	\$ 848,741	\$ 675,092	\$ 535,053
Cost of sales and operating expenses	(637,873)	(508,016)	(415,048)
Operating margin	210,868	167,076	120,005
Operating margin Percentage	24.8%	24.7%	22.4%
Amortization	(47,532)	(38,286)	(28,095)
Interest and financing charges	(9,155)	(8,191)	(9,895)
Earnings from operations	154,181	120,599	82,015
Income taxes	(54,417)	(43,500)	(29,131)
Earnings before minority interest	99,764	77,099	52,884
Minority interest	(2,265)	(1,394)	(864)
Net Earnings	97,499	75,705	52,020
Net Earnings per share	\$1.21	\$0.98	\$0.74
Weighted average number of outstanding shares	80,837,502	77,597,058	70,459,921

Currently the Company operates primarily in the North American construction industry, which is seasonal. Accordingly, approximately three-fifths of Royal's net sales and operating margin and three quarters of its net earnings occur in its last two quarters. As such, sales, operating margins and net earnings as a percentage of sales have historically been significantly different in the earlier quarters, or on a by-quarter basis, as compared to an annualized amount or rate.

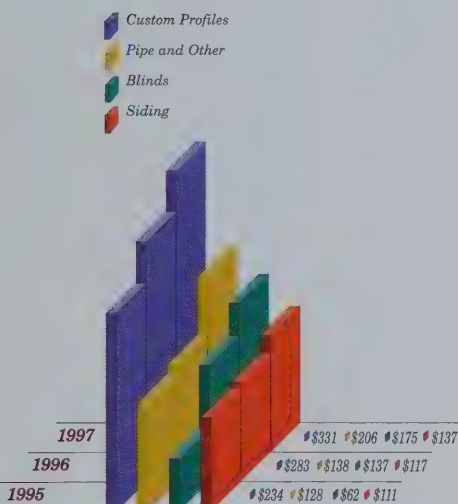
Year ended September 30, 1997 as compared to the year ended September 30, 1996

Net Sales

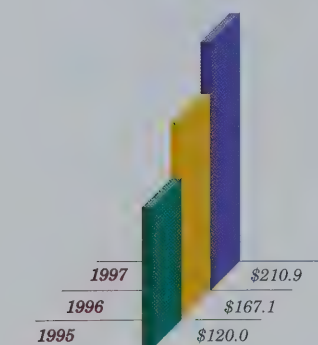
Net sales for the year ended September 30, 1997 increased \$173.6 million or 26% to a record \$848.7 million, up from \$675.1 in 1996. Double digit growth was recorded in each of the custom profile, vertical blind, siding and pipe & other divisions. Growth of 50% experienced in the pipe & other division reflects continued growth of the Building Technologies Group (which commenced commercial production in fiscal 1996) and recent acquisitions. The overall sales increase was due to unit volume increases in all operating divisions, and despite the effect of competitive pricing pressure experienced in some divisions.

Diversification outside of Canada continued with the United States segment growing to 57% of total sales from 55% for the same period in 1996 and the Mexico & other segments growing to 7% of total sales from 6%. This increase is consistent with the Company's plans to reduce the effects of the seasonality of the construction industry on Royal's results through geographic diversification. On a dollar basis Royal's Mexico and other segments increased \$21 million or 55% as penetration into non Canadian and U.S. markets continued, primarily Mexico, Poland and Argentina.

Sales by Product (in millions of dollars)



Operating Margin (EDITDA) (in millions of dollars)



Overall a growth rate consistent with past trends is expected in fiscal 1998. Management expects positive results from the following: continued growth in demand for the core Building Products Group despite the threat of upward pressure on interest rates, continued introduction of new innovative applications and products from the Building Technologies Group and continued international manufacturing expansion.

Operating margin (EBITDA)

Operation margin for the year ended September 30, 1997 increased slightly to 24.8% compared to 24.7% during the same period in 1996. The increase was primarily due to higher unit volumes sold in all of the operating divisions. Raw material costs as a percentage of sales decreased to 42.4% from 42.6% last year. Labor cost as a percentage of sales increased to 13.1% from 12.2%. This increase was due to higher level of labor utilization during year to build inventories for the increased unit demand, to build inventory for start-up companies and higher technical training costs for increased capacities and start-ups. Higher unit volumes sold during the year reduced the overhead costs on a per unit basis thereby reducing the other manufacturing costs as a percentage of sales to 8.4% from 9.1% in 1996. Similarly, the higher unit volumes had a positive effect on selling, general and administration costs as a percentage of sales which decreased 0.3% from 1996.

For fiscal 1998 management believes EBITDA as a percentage of sales should remain relatively stable. Management anticipates raw material costs as a percentage of sales will remain constant through 1998 and labor costs as a percentage of sales should stabilize as unit volumes for increased capacities and start-ups increase.

Amortization

Amortization expense as a percentage of sales was 5.6% which is consistent with the 5.7% experienced last year. This expense increased by \$9.2 million from \$38.3 million for the same period last year, due to added capacities in custom profile, vertical blind, building systems and support divisions, and amortization of goodwill and other assets which accounted for 41% of the dollar increase.

Interest and financing charges

Interest and financing charges declined as a percentage of sales, to 1.1% from 1.2% last year. Interest expense increased by \$1.0 million from \$8.2 million due to higher level of loan utilization. Royal's capital expenditure program during the year was financed with cash flow and utilization of its bank credit facilities. In November 1997, the Company issued U.S.\$165 million of 5 and 10 year senior unsecured notes bearing interest rates of 6.84% and 7.10% respectively. The proceeds were used to repay all borrowings under the Company's \$400 million revolving credit facilities and for general corporate purposes.

Income tax expense

Income tax expense as a percentage of earnings before income taxes decreased to 35.3% from 36.1% due to receipt of investment tax credits resulting from prior year's research and development efforts.

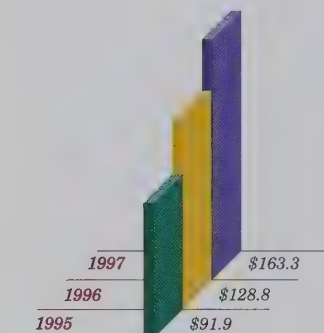
Net earnings and earnings per share

Net earnings in 1997 increased by \$21.8 million or 29% to a record \$97.5 million or 11.5% of sales from \$75.7 million or 11.2% of net sales for the previous year.

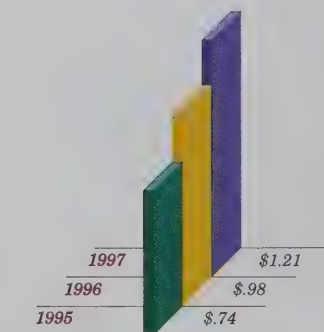
Earnings per share for the year ended September 30, 1997 is \$1.21 which represents a 24% increase over the earnings per share of \$0.98 for the previous year, despite an increase in the weighted average

Management's Discussion and Analysis

EBIT
(in millions of dollars)



Earnings Per Share
(in dollars)



number of shares of 3,240,444 to 80,837,502 from 77,597,058.

***Year ended September 30, 1996
as compared to the year ended
September 30, 1995***

Net sales in 1996 increased 26% or \$140 million over 1995 to \$675.1 million. The vertical blind division accounted for \$75 million of the increase primarily due to the November 1995 acquisition of Novo Industries, Inc. The net year over year sales increase excluding this acquisition was 12%, exceeding the growth of the renovation/remodeling market as a whole, with the strongest sales performance from the custom profiles division, up 21% from the prior year. The overall sales increase was primarily due to unit volume increases in all operating divisions and was partially offset by lower per unit selling prices as the Company focused on remaining competitive as well as increasing market share. Unit volumes in the Building Products Group increased 32% from the prior year as Royal gained market share in the custom profile, vertical blind and siding divisions.

Sales by geographic region reflect the United States segment increasing to 55% of total sales from 50% in 1995 and Other segments increasing to 6% from 2% in 1995. Growth was strong across all of Royal's major geographic markets with 6% growth in the Canadian market, 154% growth in the United States market and 188% increase in the other segments. United States sales increase significantly due to the acquisition of Novo Industries, Inc. and the relocation of the Royalguard siding plant to Tennessee. Growth in other segments sales occurred due to commencement of commercial production of the Building System, the purchase of American Building Products (which primarily operates in Poland), the purchase of Novo

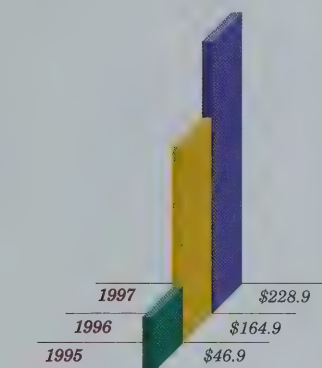
Europe in the Netherlands and increased sales activity at Advance Profiles in Mexico.

Operating margin increase in 1996 to 24.7% of sales compared to 22.4% from 1995. The increase was primarily realized as raw material costs as a percentage of sales decreased to 42.6% from 45.3% in 1995. Royal's high level of vertical integration permits the sharing of fixed overhead costs over an increasingly diversified product base. Royal has improved margins with improved production efficiencies, including increased throughput in production, increased material efficiencies and improved fixed cost absorption due to higher unit volumes. Labor costs as a percentage of sales remained stable at 12.2%. Higher labor efficiencies in core divisions were offset by start-up conditions associated with the commercial roll-out of the Building System. This roll-out resulted in other manufacturing costs as a percentage of sales of 9.6% versus 8.6% in 1995.

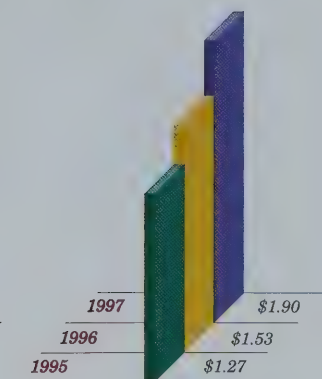
Amortization expense as a percentage of sales was 5.7% which is slightly higher than the 5.3% in 1995. This expense increased by \$10.2 million from \$28.1 million for the same period in 1995, due to added capacities (most notably in the custom profile and siding divisions) and amortization of purchased goodwill, which accounted for 35% of the dollar increase.

Interest and financing charges declined as a percentage of sales to 1.2% in 1996 from 1.8% in 1995. Interest expense declined by \$1.7 million from \$9.9 million due to lower average loan rates and balances during 1996. During the year funded debt declined by \$4.4 million from 1995. In August 1996, the Company issued U.S.\$100 million of 10 year senior, unsecured notes bearing interest at rates from 7.17% to 7.31%. The proceeds were used to fund capital

Working Capital
(in millions of dollars)



Cash Flow Per Share
(in dollars)



acquisitions and repay borrowing under the Company's revolving credit facilities.

Net earnings in 1996 increased by \$23.7 million or 46% to a record \$75.7 million or 11.2% of sales from \$52.0 million or 9.7% for 1995.

Earnings per share for the year ended September 30, 1996 was \$0.98 which represented a 32% increase over the earnings per share of \$0.74 for 1995, despite an increase in the weighted average number of shares of approximately 7.1 million to 77.6 million, from 70.5 million in 1995.

Liquidity and Capital Resources

Cash flow

In fiscal 1997, the Company generated cash flow of \$153.2 million or \$1.90 per share, an improvement of \$34.5 million or 29.0% over \$118.7 or \$1.53 per share generated in the prior year. During the three years ended September 30, 1997, the Group's cash flow aggregated \$361.4 million, representing an average annual cash flow of \$120.4 million. For 1998, management believes that the Group will continue to generate improved cash flow, and cash flow will continue to be used as a primary source of funds for investing activities.

Working capital

During fiscal 1997, management had drawn on the short term portion of its bank credit facilities, for cash requirements, to take advantage of lower rates on short term debt. On September 30, 1997, these short term borrowings, under the Company's \$400 million revolving credit facility, were reclassified to long term debt consistent with the classification of the senior unsecured notes issued to repay the credit facility on November 13, 1997.

A summary of Royal's working capital position at September 30,

1997 and 1996 is set out below:

	1997	1996
Working capital (millions)	228.9	164.9
Current ratio	2.52:1	2.24:1

Working capital increased to \$228.9 million at September 30, 1997 from working capital of \$164.9 million at September 30, 1996. This improvement of \$64.0 million was primarily due to cash generated from operations and net proceeds of approximately \$30 million from the issuance of shares under the Company's stock option plan and cash received from minority interests.

Management continues to focus efforts on reducing levels of receivables and inventories. A 13% decline in days receivables was experienced in 1997 while a 3% increase in days inventories occurred, primarily as a result of increased volume activity and level of demand in all operating divisions.

Capital Spending

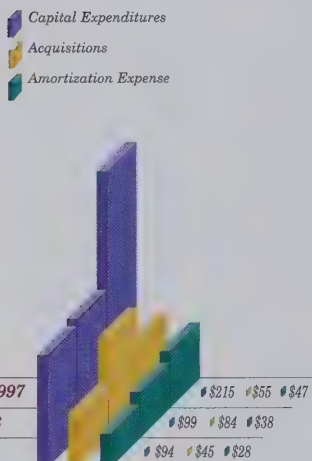
Capital spending including acquisitions, for the years ended September 30, 1997 and 1996 is summarized below:

	1997	1996
	(millions)	
Capital expenditures	215.6	99.9
Acquisitions	54.9	84.1
Total	270.5	184.0

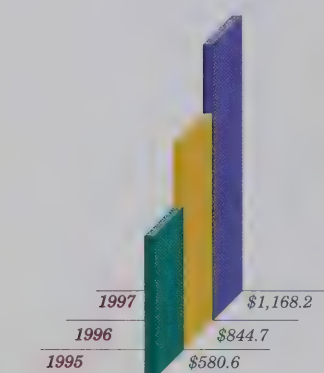
Capital expenditures during 1997 consisted of expansion and construction of buildings for added capacity of approximately \$91 million of which \$25 million was for the Building Technologies Group. Machinery and equipment expenditures were split approximately \$83 million for the Building Products Group and \$42 million for the Building Technologies Group. In total 14 new state-of-the-art manufacturing facilities were either constructed or purchased, 4 plants

Management's Discussion and Analysis

Capital Spending and Amortization (in millions of dollars)



Total Assets (in millions of dollars)



in Argentina, Colombia, China and Mexico relate to the Royal Building System. In addition, 4 existing facilities were expanded during the year.

During the year the Company acquired either 100% or controlling interest in 7 companies for an average purchase price of approximately \$7.8 million. Each acquisition represents a strategic opportunity for the Company that will produce positive results in future years.

For fiscal 1998, excluding acquisitions, the Company anticipates an investment in capital assets of approximately \$150 million, primarily for increased capacities in the Building Products Group and for initial facilities in the Building Technologies Group. The Building System manufacturing facilities in Mexico and China are expected to be placed into productive use during the first six months of fiscal 1998.

Royal is actively exploring several additional business opportunities in order to strengthen and enhance future growth prospects and to expand existing operating segments. It is anticipated that such acquisitions or start-ups would be financed from cash flow generated from operations, working capital and, existing bank credit facilities.

Long term debt and financial instruments

In October 1996, the Company's syndicate of banks agreed to increase its credit facilities to \$400 million and reduce interest rates, (of which approximately \$247.0 million was un-utilized at September 30, 1997). The total funded debt to total capitalization was .30:1 at September 30, 1997 and increased from prior year due to increased financing used for the Company's capital spending program.

In November 1997, the Company issued U.S. \$165 million of 5 and 10 year senior unsecured notes bearing interest rates of 6.8% and 7.10%

respectively. The proceeds were used to repay all borrowings under the Company's \$400 million revolving credit facilities with the balance placed in short term money market deposits.

It is anticipated that this cash will be utilised to fund a portion of Royal's 1998 capital expenditure and acquisition program. Royal's bank credit facilities, the authorized amount of which will remain unchanged at \$400 million, may be used for working capital, capital expenditure, acquisitions and other general corporate purposes.

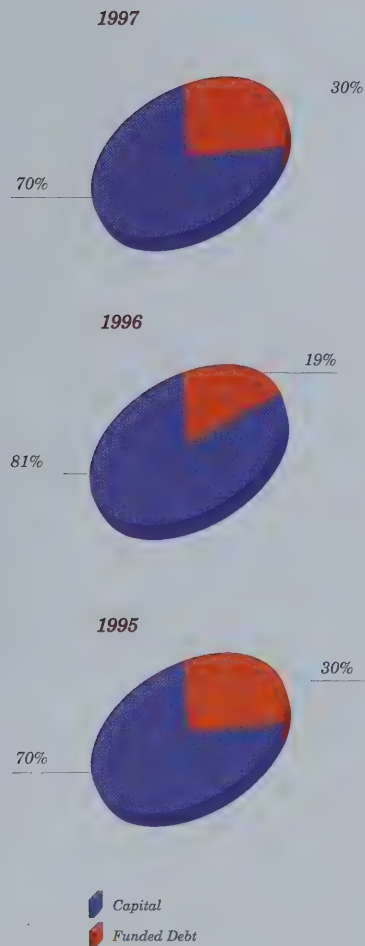
Management believes that Royal's anticipated cash flow and available credit under its working capital and term financing arrangements will be sufficient to meet its working capital, capital expenditure program including potential business acquisitions currently being explored, as well as debt service requirements, including the seasonal natures thereof.

Risks and Uncertainties

Royal's future performance could be affected by the following important factors, among others, which in some cases have affected, and which in future could affect, Royal's actual results and could cause Royal's actual results for 1998 and beyond to differ materially from those expressed in any forward-looking statements made by or on behalf of Royal.

Royal's business is substantially related to the North American construction industry, both residential and industrial/commercial. Therefore, the demand for the products manufactured and distributed by Royal is affected by changes in the general state of the North American economy, including renovation and remodelling, new housing starts and the level of construction activity in general. Royal distributes its products primarily to

Funded Debt to Capital



the renovation and remodelling market, which has traditionally experienced more moderate fluctuations than the new construction market. However, there is no guarantee that this market will, in the future, continue to respond in such manner. Management seeks to manage this risk by geographical and product line diversification.

The price and availability of raw materials, and in particular PVC resin, represents a substantial portion of the cost of manufacturing Royal's products. Historically, there have been fluctuations in these raw material prices and in some instances price movements have been volatile and affected by circumstances beyond Royal's control. Generally, Royal has been able to pass on increases from normal market fluctuations in the price of PVC resin to its customers through increases in selling prices, or otherwise absorb such cost increases without significantly affecting its margins. However, there can be no assurance that the market will, in the future, respond favorably to such selling price increases or that the Company will be able to otherwise absorb such cost increases without significantly affecting its margins. In addition, the industry has occasionally found certain raw materials to be in short supply. However, there can be no assurance Royal's sources of supply will be adequate to supply its needs on a timely basis.

Much of Royal's proprietary technology constitutes "know-how" (for example, certain formulations or compounds) which cannot be the subject of intellectual property protection. Although Royal has taken steps to protect its proprietary technology, there can be no assurance that Royal's proprietary technology will not be misappropriated or developed independently by com-

petitors or customers of Royal.

The Company is subject to a wide range of general and industry specific environmental laws and regulations, particularly relating to waste water discharge. Although the Company maintains all facilities in compliance with regulatory standards, there can be no assurance that changes in environmental laws and regulations, or their application, will not require further expenditures by the Company.

As Royal continues to expand the scope of its activities in foreign markets, it becomes exposed to a greater risk of foreign exchange fluctuations. The Company attempts to minimize risks associated with currency fluctuations through matching the currency of debt financing and the currency of certain raw material purchases to the currency of sales or asset acquisitions. While the Company has not entered into market instruments with respect to foreign exchange hedging in the past, it may, if deemed necessary do so in a prudent fashion, in the future. Furthermore, the Company does not purchase derivative instruments beyond those needed to hedge foreign currency requirements.

Outlook for 1998

During 1997, the Company continued to build the framework for international development and diversification. The Company's trend of product and geographic diversification will continue through 1998.

Looking toward 1998, the Company anticipates strong sales and net earnings growth through increased volumes in both the Building Products Group and the Building Technologies Group, contributions from new products, new markets and business development activities.

Consolidated Financial Statements of Royal Group Technologies Limited

Years ended September 30, 1997 and 1996

Management's Report to the Shareholders

Preparation of the consolidated financial statements accompanying this annual report and the presentation of all other information in this report is the responsibility of management. The financial statements have been prepared in accordance with appropriate and generally accepted accounting principles and reflect management's best estimates and judgements. All other financial information in the report is consistent with that contained in the financial statements. The Company maintains appropriate systems of internal control, policies and procedures which provide management with reasonable assurance that assets are safeguarded and that financial records are reliable and form a proper basis for preparation of financial statements.

The Board of Directors ensures that management fulfills its responsibilities for financial reporting and internal control through an Audit Committee which is composed of a majority of non-executive directors. The Audit Committee reviewed the consolidated financial statements with management and external auditors and recommended their approval by the Board of Directors.

The consolidated financial statements have been audited by KPMG, Chartered Accountants. Their report stating the scope of their audit and their opinion on the consolidated financial statements is presented below.



Vic De Zen
Chairman, President
and Chief Executive Officer



Gary Brown
Executive Vice President
and Chief Financial Officer

Auditors' Report to the Shareholders

We have audited the consolidated balance sheets of Royal Group Technologies Limited as at September 30, 1997 and 1996 and the consolidated statements of earnings, retained earnings and changes in financial position for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at September 30, 1997 and 1996 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.



Chartered Accountants
Toronto, Canada
November 21, 1997

Consolidated Balance Sheets

Years ended September 30, 1997 and 1996

(in thousands of Canadian dollars)

	1997	1996
Assets		
<i>Current assets:</i>		
Cash	\$ 5,561	\$ 17,894
Accounts receivable (note 4)	176,087	154,427
Inventories (note 5)	192,295	120,464
Prepaid expenses and deposits	5,575	4,734
	<u>379,518</u>	<u>297,519</u>
Property, plant and equipment (note 6)	605,274	392,838
Goodwill and other assets (note 7)	183,402	154,313
	<u>\$ 1,168,194</u>	<u>\$ 844,670</u>
Liabilities and Shareholders' Equity		
<i>Current liabilities:</i>		
Accounts payable and accrued liabilities (note 8)	\$ 149,679	\$ 126,973
Term debt due within one year (note 9)	906	5,639
	<u>150,585</u>	<u>132,612</u>
Term debt (note 9)	299,777	142,675
Deferred income taxes	36,172	30,587
Minority interest	33,519	6,426
<i>Shareholders' equity:</i>		
Capital stock (note 10)	393,619	372,749
Retained earnings	257,901	163,842
Currency translation adjustments	(3,379)	(4,221)
	<u>648,141</u>	<u>532,370</u>
	<u>\$ 1,168,194</u>	<u>\$ 844,670</u>

See accompanying notes to consolidated financial statements.

On behalf of the Board:

Director

Director

Consolidated Statements of Earnings

Years ended September 30, 1997 and 1996

(in thousands of Canadian dollars, except per share)

	1997	1996
Net sales	\$ 848,741	\$ 675,092
Cost of sales and operating expenses	(637,873)	(508,016)
Operating margin	210,868	167,076
Amortization (note 12)	(47,532)	(38,286)
Interest and financing charges (note 13)	(9,155)	(8,191)
Earnings before income taxes and minority interest	154,181	120,599
Income taxes (note 14)	(54,417)	(43,500)
Earnings before minority interest	99,764	77,099
Minority interest	(2,265)	(1,394)
Net earnings	\$ 97,499	\$ 75,705
Basic earnings per share (note 11)	\$ 1.21	\$ 0.98

Consolidated Statements of Retained Earnings

Years ended September 30, 1997 and 1996

(in thousands of Canadian dollars)

	1997	1996
Retained earnings, beginning of year	\$ 163,842	\$ 88,137
Purchase of stock options for cancellation, net of tax	(3,440)	—
Net earnings	97,499	75,705
Retained earnings, end of year	\$ 257,901	\$ 163,842

Consolidated Statements of Changes in Financial Position

Years ended September 30, 1997 and 1996
in thousands of Canadian dollars, except per share)

	1997	1996
Cash provided from (used in):		
Operating activities:		
Earnings before minority interest	\$ 99,764	\$ 77,099
Add back items not affecting cash (note 16)	53,468	41,642
Changes in non-cash working capital balances (note 17)	(62,092)	(3,315)
	<u>91,140</u>	<u>115,426</u>
Investing activities:		
Acquisitions of property, plant and equipment	(215,627)	(99,980)
Acquisition of non-cash assets	(54,958)	(84,058)
Increase in other assets	(10,201)	(19,831)
	<u>(280,786)</u>	<u>(203,869)</u>
Financing activities:		
Term debt proceeds	155,225	142,712
Term debt repayments	(9,944)	(152,594)
Net investments by minority interest	15,694	(375)
Issuance of shares on public offerings	—	108,750
Share issue costs	—	(3,270)
Issuance of shares on acquisitions	996	16,229
Issuance of shares under stock option plan	19,874	474
Purchase of stock options for cancellation	(5,375)	—
	<u>176,470</u>	<u>111,926</u>
Effect of exchange rate changes	<u>843</u>	<u>(2,183)</u>
Increase (decrease) in cash	(12,333)	21,300
Cash, (bank indebtedness), beginning of year	17,894	(3,406)
Cash, end of year	<u>\$ 5,561</u>	<u>\$ 17,894</u>
Cash flow (being earnings before minority interest plus items not affecting cash)	\$ 153,232	\$ 118,741
Basic cash flow per share	\$ 1.90	\$ 1.53

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

September 30, 1997 and 1996
(in thousands of Canadian dollars)

1. Significant accounting policies:

These consolidated financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada, the more significant of which are outlined below. A reconciliation to accounting principles generally accepted in the United States is shown in note 19.

(a) Principles of consolidation:

These consolidated financial statements include the accounts of Royal Group Technologies Limited, its subsidiaries and its proportionate share of the accounts of its joint ventures. Investments in joint ventures have been proportionately consolidated based on the Company's ownership interest. All significant intercompany profits, transactions, and balances have been eliminated in consolidation.

(b) Use of estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the amounts of revenues and expenses for the period. Actual results could differ from those estimates.

(c) Inventories:

Inventories are stated at the lower of cost, determined using the first-in, first-out (FIFO) basis, and replacement cost for raw materials and net realizable value for finished goods.

(d) Property, plant and equipment:

Property, plant and equipment is stated at cost less accumulated amortization. Interest expense relating to major capital expenditures is capitalized when significant interest costs will be incurred before the capital facility commences production. Amortization is provided on a straight-line basis over the estimated useful lives of the assets using the following rates:

Buildings	20 to 40 years
Plant equipment	10 to 15 years
Dies and molds	4 to 10 years
Office and computer equipment	3 to 10 years
Aircraft and Transport equipment	5 to 20 years

(e) Goodwill and other assets:

Goodwill is amortized on a straight-line basis over forty years. Goodwill is regularly evaluated by reviewing the returns of the related business, taking into account the risk associated with the investment. Any permanent impairment of goodwill would be written off against earnings.

Other assets, primarily being deferred development costs, are amortized on a straight-line basis over three to five years from the date commercial production of the related product commences.

(f) Foreign currency translation:

Financial statements of self sustaining foreign operations are translated using the current rate method. Adjustments arising from this translation are deferred and recorded under a separate caption of shareholders equity and are included in income only upon a reduction in the investment.

Foreign currency transactions are translated using the temporal method. Translation gains and losses are included in income, except for unrealized gains and losses arising from the translation of long-term monetary liabilities which are deferred and amortized over the remaining life of the related item.

(g) Comparative figures:

Certain of the comparative figures have been reclassified to conform with the presentation adopted in the current year.

Notes to Consolidated Financial Statements

September 30, 1997 and 1996
(in thousands of Canadian dollars)

2. Business development:

(a) Acquisitions of other businesses:

During 1997, the Company acquired either 100% or controlling interest in certain businesses for aggregate consideration of \$54,958 in cash and shares. These acquisitions were accounted for by the purchase method and are summarized as follows:

Working capital	\$ 10,733
Property, plant and equipment	28,443
Other assets	11
	39,187
Term debt	(3,703)
Deferred income taxes	(5)
Minority interest	(9,133)
	26,346
Goodwill	28,612
Total purchase price	\$ 54,958

(b) Acquisition of Novo Industries, Inc.:

On November 30, 1995, the Company acquired all of the issued and outstanding shares of Novo Industries, Inc., and Novo Europe B.V. (collectively "Novo"). Novo is a vertical blind manufacturer based in Houston, Texas with distribution facilities in California, Florida, Illinois, New Jersey and the Netherlands.

The net purchase price for Novo was \$81,776 (US \$60,100), 80% of which was paid for by way of cash and 20% of which was paid through the issuance of 902,753 subordinate voting shares of the Company. The acquisition has been accounted for by the purchase method.

Details of the acquisition are summarized as follows:

Working capital	\$ 19,196
Property, plant and equipment	17,591
Other assets	131
	36,918
Term debt	(21,297)
Deferred income taxes	(533)
	15,088
Goodwill	66,688
Total purchase price	\$ 81,776
Consideration:	
Share capital (note 10)	\$ 16,229
Cash	65,547
	\$ 81,776

2. Business development (continued):

(c) *Financing arrangements:*

In September 1997, the company received commitments from institutional investors to issue US \$165 million of senior unsecured notes. On November 13, 1997, the company issued US \$50 million, 6.84% Series C notes, due November, 2002 and US \$115 million, 7.10% Series D notes, due November 2007. Proceeds from the issue of the notes were used to repay indebtedness under the Company's revolving credit agreement and for general corporate purposes (note 9).

In August 1996, the Company issued US \$100 million of 10 year senior, unsecured notes bearing interest at rates from 7.17% to 7.31%. The proceeds were used to fund capital acquisitions and repay borrowings under the Company's revolving credit facilities.

3. Interest in joint ventures:

The Company's proportionate interests in joint ventures includes current assets of \$3,593 (1996 - \$4,028), property, plant and equipment of \$5,824 (1996 - \$5,159), current liabilities of \$2,328 (1996 - \$3,193) and long-term liabilities of \$3,322 (1996 - \$3,307). Operating results of the Company include sales of \$17,884 (1996 - \$15,800) and net earnings of \$1,990 (1996 - \$1,631) from its proportionate interest of joint venture operations.

Cash provided from operations of \$2,378 (1996 - \$2,191) and acquisitions of property, plant and equipment of approximately \$1,466 (1996 - \$2,927) related to its proportionate share of operations of certain joint ventures during the year.

4. Accounts receivable:

	1997	1996
Trade, net of allowance for doubtful accounts of \$6,519 (1996 - \$ 4,518)	\$ 169,356	\$ 149,854
Taxes and other	6,731	4,573
	\$ 176,087	\$ 154,427

5. Inventories:

	1997	1996
Raw materials	\$ 86,385	\$ 51,765
Finished goods	105,910	68,699
	\$ 192,295	\$ 120,464

6. Property, plant and equipment:

			1997	1996
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Land	\$ 39,313	\$ -	\$ 39,313	\$ 32,250
Buildings	193,848	38,705	155,143	104,517
Plant equipment	413,748	137,440	276,308	170,213
Dies and moulds	54,437	30,546	23,891	18,133
Office and computer equipment	16,598	9,058	7,540	5,071
Aircraft and transport equipment	45,659	13,206	32,453	33,019
	763,603	228,955	534,648	363,203
Assets under construction	54,108	-	54,108	18,674
Land held for future use	16,518	-	16,518	10,961
	\$ 834,229	\$ 228,955	\$ 605,274	\$ 392,838

Notes to Consolidated Financial Statements

September 30, 1997 and 1996
(in thousands of Canadian dollars)

6. Property, plant and equipment, (continued):

Assets under construction are expected to be placed into productive use during the first six months of fiscal 1998 and consist of land and buildings under construction of \$34,367 (1996 - \$3,432) and plant equipment under construction of \$19,741 (1996 - \$15,242). Capital expenditures during the year include \$1,783 (1996 - \$1,319) of capitalized interest costs.

7. Goodwill and other assets:

	1997	1996
Goodwill, net of accumulated amortization of \$10,842 (1996 - \$6,853)	\$ 130,241	\$ 105,611
Deferred charges:		
Product development and start-up costs, net of accumulated amortization of \$6,641 (1996 - \$1,673)	45,900	41,327
Patents, net	3,035	2,158
Deferred financing costs, net	1,174	1,362
	<u>50,109</u>	<u>44,847</u>
Investments, at cost	3,052	3,855
	<u>\$ 183,402</u>	<u>\$ 154,313</u>

8. Accounts payable:

	1997	1996
Trade	\$ 103,325	\$ 93,826
Outstanding cheques	12,940	8,672
Taxes and other	33,414	24,475
	<u>\$ 149,679</u>	<u>\$ 126,973</u>

9. Term debt:

The Company has a revolving \$400,000 unsecured credit facility with a syndicate of banks. The facility consists of a \$150,000 operating loan for working capital requirements, that bears interest at prime or at 0.225% over bankers' acceptances rates or at 0.225% over Libor, and \$250,000 of term debt for acquisitions and capital expenditures, that bears interest at prime, or 0.350% over bankers acceptances rates or 0.350% over Libor, expiring in October 2001. On November 13, 1997, all borrowings under this credit facility were repaid with proceeds received from the placement of senior unsecured notes (note 2c). The classification of this facility as of September 30, 1997 is based on the classification of the senior unsecured notes issued to repay the credit facility.

9. Term debt, (continued):

	1997	1996
Revolving unsecured credit facility:		
Operating:		
Bankers acceptances advances	\$ 16,000	\$ —
Libor advances (US - \$81,000)	111,869	—
Term:		
Libor advances (US - \$18,000)	24,860	—
Senior notes (US \$100,000), unsecured, bearing interest at 7.17% on US \$75,000 and 7.31% on US \$25,000, principal repayments due annually from August 2002 through 2006	138,110	136,180
Industrial development revenue bonds (US \$4,537 1996 - US \$4,796) bearing interest at 3.63%, repayable in monthly installments of US \$ 21 plus interest, due April 2009	6,266	6,532
	297,105	142,712
Term debt requiring periodic principal repayments:		
US dollar note payable (US \$274, 1996 - US \$1,374)		
non-interest bearing	378	1,871
Other	3,200	3,731
	3,578	5,602
Total term debt	300,683	148,314
Term debt due within one year	(906)	(5,639)
	\$ 299,777	\$ 142,675

Principal repayments for the next five fiscal years are as follows:

1998	\$ 906
1999	438
2000	438
2001	438
2002 and thereafter	298,463
	\$ 300,683

10 . Capital stock:

Authorized share capital of the Company consists of the following:

(a) Unlimited number of preference shares:

Preference shares are issuable in series, with the designation of rights, privileges, restrictions and conditions to be determined by the Board of Directors prior to the issue of the first shares of a series. None of these shares are issued or outstanding.

Notes to Consolidated Financial Statements

September 30, 1997 and 1996
(in thousands of Canadian dollars)

10. Capital stock, (continued):

(b) Unlimited number of subordinate voting shares and multiple voting common shares:

(i) Subordinate voting shares:

Each share is entitled to one vote per share at all meetings of shareholders and shall participate equally as to dividends with each multiple voting share.

(ii) Multiple voting shares:

Each share is entitled to 20 votes per share at all meetings of shareholders and shall participate equally as to dividends with each subordinate voting share. Each share may be converted at any time into a fully-paid subordinate voting share on a one-for-one basis.

In the event that either the subordinate voting shares or the multiple voting shares are subdivided or consolidated, the other class shall be similarly changed to preserve the relative position of each class. Under certain conditions, the sale or transfer of multiple voting shares shall cause such shares to be changed to subordinate voting shares.

	Subordinate Voting		Multiple Voting		Total	Stated
	No. of shares	Stated Value	No. of shares	Stated value	No. of shares	value
Issued and outstanding at September 30, 1995	56,701,256	\$ 232,156	17,635,444	\$ 18,410	74,336,700	\$ 250,566
Issued for cash, net of share issue costs	5,000,000	105,480	—	—	5,000,000	105,480
Issued on acquisition of Novo Industries, Inc. (note 2(b))	902,753	16,229	—	—	902,753	16,229
Issued for cash under stock option plan	70,133	474	—	—	70,133	474
Issued and outstanding at September 30, 1996	62,674,142	\$ 354,339	17,635,444	\$ 18,410	80,309,586	\$ 372,749
Issued on acquisition of Companies	71,780	996	—	—	71,780	996
Issued for cash under stock option plan	1,694,028	19,874	—	—	1,694,028	19,874
Issued and outstanding at September 30, 1997	64,439,950	\$ 375,209	17,635,444	\$ 18,410	82,075,394	\$ 393,619

During 1995 the Company adopted a stock option plan to allow management and key operating personnel to purchase subordinate voting shares, substantially exercisable as to half on or after December 1, 1997, the balance after December 1, 2000. The maximum number of subordinate voting shares reserved to be issued for options cannot exceed 10,750,000.

	1997	1996
Balance at beginning of year	9,575,273	8,555,776
Granted during the year, at prices ranging from \$20.20 to \$35.90 per share (1996 - \$17.00 to \$22.00 per share)	1,833,056	1,287,744
Exercised during the year	(1,694,028)	(70,133)
Cancelled during the year	(305,245)	(198,114)
Balance at end of year	9,409,056	9,575,273

11. Earnings per share:

Basic and fully diluted net earnings per share have been calculated using the weighted average and maximum dilutive number of shares outstanding during the year of 80,837,502 (1996 - 77,597,058) and 90,260,363 (1996 - 87,172,331), respectively. Earnings per share on a fully diluted basis is \$1.19 (1996 - \$0.96)

12. Amortization:

	1997	1996
Property, plant and equipment	\$ 38,575	\$ 33,120
Goodwill	3,989	3,556
Deferred charges	4,968	1,610
	\$ 47,532	\$ 38,286

13. Interest and financing charges:

	1997	1996
Interest expense:		
Operating	\$ 3,099	\$ 3,233
Term	4,417	4,138
Bank and financing charges	1,190	647
Amortization of deferred financing charges	449	173
	\$ 9,155	\$ 8,191

14. Income taxes:

	1997	1996
Earnings before income taxes and minority interest	\$ 154,181	\$ 120,599
Expected income taxes based on an effective manufacturing and processing income tax rate of approximately 36%	55,504	43,416
Changes in income taxes attributed to:		
Amortization of goodwill	1,304	1,285
Reduction due to income earned in foreign jurisdictions	(2,974)	(2,313)
Different effective income tax rates on earnings of certain subsidiaries and other	583	1,112
	\$ 54,417	\$ 43,500

The current tax provision for the year was \$48,838 (1996 - \$38,513) and the deferred tax provision was \$5,579 (1996 - \$4,987).

Notes to Consolidated Financial Statements

September 30, 1997 and 1996

(in thousands of Canadian dollars)

15. Segment reporting data:

The Company operates primarily in the North American building products industry and sells to a broad range of customers, none of which accounted for more than 2.9% of net sales (1996 - 3%).

Net sales to non-Canadian customers, including foreign based sales and exports from Canadian operations, represented 64% (1996 - 61%) of total net sales. Net sales and identifiable assets by geographic region are presented below:

	1997	1996
Net sales:		
Canadian segment:		
United States	\$ 231,730	\$ 210,036
Other foreign countries	18,453	17,056
Total exports	250,183	227,092
Canada	307,320	264,461
	557,503	491,553
American segment	250,558	162,474
Other segments	40,680	21,065
	\$ 848,741	\$ 675,092
Identifiable assets:		
Canadian segment	\$ 879,334	\$ 664,979
American segment	185,532	156,237
Other segments	103,328	23,454
	\$ 1,168,194	\$ 844,670

16. Items not affecting cash:

	1997	1996
Amortization	\$ 47,532	\$ 38,286
Amortization of deferred financing charges and foreign exchange loss	449	173
Deferred income taxes	5,579	3,147
Other	(92)	36
	\$ 53,468	\$ 41,642

17. Changes in non-cash working capital balances:

	1997	1996
Accounts receivable	\$ (7,204)	\$ (27,833)
Inventories	(50,181)	(5,550)
Prepaid expenses and deposits	787	(1,029)
Accounts payable and accrued liabilities	(5,494)	31,097
	\$ (62,092)	\$ (3,315)

The changes in non-cash working capital balances noted above are exclusive of non-cash working capital acquired through acquisitions.

18. Financial instruments and risk management:

(a) Derivative financial instruments:

The Corporation does not hold or issue financial instruments for trading purposes and does not hold any derivative instruments.

(b) Concentration of credit risk:

Concentration of credit risks in accounts receivable are limited due to the large number of customers comprising the Company's customer base throughout the world. The company performs ongoing credit evaluations of its customers and establishes an allowance for doubtful accounts based on credit risk applicable to particular customers, historical trends and other relevant information.

(c) Fair value of financial instruments:

The carrying amount of cash, accounts receivable, and accounts payable and accrued liabilities in the consolidated balance sheets approximate fair values due to the short-term maturities of these instruments.

The reported amount of variable rate long-term debt instruments are estimated to approximate fair values as rates are tied to short-term indices. The reported amount of fixed rate long term debt instruments are estimated to approximate fair values as actual rates are consistent with rates estimated to be currently available for debt of similar terms and remaining maturities.

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgement and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

19. Significant differences between Canadian and United States generally accepted accounting principles:

These consolidated financial statements have been prepared in accordance with generally accepted accounting principles (GAAP) in Canada. In certain respects, GAAP in the United States (US) differs from those in Canada. The following is a summary of the effect of significant differences in GAAP on the consolidated financial statements:

(a) Description of GAAP differences:

(i) Purchase of stock options for cancellation:

Canadian GAAP permits the costs for the purchase of stock options for cancellation to be charged directly to retained earnings. Under US GAAP, such costs are charged to earnings as period costs.

(ii) Foreign exchange on term debt:

Canadian GAAP requires that unrealized gains and losses on the translation of term debt denominated in foreign currencies at current exchange rates be deferred and amortized over the term of the debt. Under US GAAP, such gains and losses are charged to earnings as period costs.

(iii) Product development costs:

Canadian GAAP permits the capitalization of product development costs if certain criteria are met. Under US GAAP, product development costs are expensed as incurred. The product development costs capitalized under Canadian GAAP are amortized on a straight-line basis over five years from the date commercial production of the related product commences.

(iv) Earnings per share:

Primary earnings per share on a US GAAP basis differs from basic earnings per share on a Canadian GAAP basis in that the primary earnings per share calculation under US GAAP is computed by application of the treasury stock method taking into account dilution related to shares issuable under the Company's option plan.

Notes to Consolidated Financial Statements

September 30, 1997 and 1996
(in thousands of Canadian dollars)

19. Significant differences between Canadian and United States generally accepted accounting principles, (continued):

(iv) Earnings per share, (continued):

The weighted average number of common shares and common share equivalents used to calculate earnings per share are as follows:

	1997	1996
Primary	85,956	82,383
Fully diluted	86,566	82,753

(v) Accounting for employee stock options:

Beginning in fiscal 1997, US GAAP encourages but does not require companies to record compensation cost for stock options at fair value. The Company accounts for its employee stock options for US GAAP purposes using the intrinsic value method, which, except as disclosed in note 19(a) (i), does not result in additional compensation expense in the Company's circumstances.

(b) Net earnings in accordance with US GAAP:

	1997	1996
Net earnings based on Canadian GAAP	\$ 97,499	\$ 75,705
Impact on net earnings of US GAAP adjustments:		
Purchase of stock options for cancellation (i)	(5,375)	—
Foreign exchange on term debt (ii)	(2,020)	—
Product development costs (iii)	1,527	(562)
Other deferred charges	223	—
Tax effect of adjustments	2,032	202
Net earnings based on US GAAP	\$ 93,886	\$ 75,345
Basic earnings per share (note 19 (iv)(a))	\$ 1.16	\$.97
Primary earnings per share	\$ 1.09	\$.92
Fully diluted earnings per share	\$ 1.08	\$.92

(c) Shareholders' equity in accordance with US GAAP:

	1997	1996
Shareholders' equity as reported	\$ 648,141	\$ 532,370
Foreign exchange on term debt (ii)	(2,020)	—
Product development costs (iii)	(9,023)	(10,550)
Other deferred charges	(939)	(1,162)
Tax effect of adjustments	4,313	4,216
Shareholders' equity in accordance with US GAAP	\$ 640,472	\$ 524,874

19. Significant differences between Canadian and United States generally accepted accounting principles, (continued):

(d) *Effect on consolidated balance sheet (see 19 (e) (ii)):*

The application of US GAAP would result in the following presentation on the consolidated balance sheets:

	1997	1996
Goodwill and other assets	\$ 173,439	\$ 142,601
Term debt	301,797	142,675
Deferred income taxes	31,859	26,371

(e) *Other disclosures:*

(i) Income taxes:

US GAAP requires that deferred income taxes be accounted for under the liability method whereas Canadian GAAP requires the use of the deferral method. The difference between these two methods does not have a material effect on the amount of deferred income taxes in the consolidated financial statements.

The deferred tax balance under US GAAP consists of deferred tax assets and deferred tax liabilities. The following are the major components of the deferred income taxes under US GAAP in the balance sheet as at September 30:

	1997	1996
Deferred tax assets:		
Share issue costs	\$ 2,917	\$ 5,175
Net operating losses	-	916
	<u>2,917</u>	<u>6,091</u>
Deferred tax liabilities:		
Property, plant and equipment	(31,478)	(29,709)
Deferred charges	(3,298)	(2,753)
	<u>(34,776)</u>	<u>(32,462)</u>
Net deferred tax liabilities	\$ (31,859)	\$ (26,371)

The tax provision under US GAAP for each of the years ended September 30 consists of the following:

	1997	1996
Current provision:		
Canadian	\$ 41,587	\$ 30,427
Foreign	7,245	8,086
	<u>48,832</u>	<u>38,513</u>
Deferred tax provision:		
Canadian	4,803	5,112
Foreign	685	(327)
	<u>5,488</u>	<u>4,785</u>
Total tax provision under US GAAP	\$ 54,320	\$ 43,298

Notes to Consolidated Financial Statements

September 30, 1997 and 1996

(in thousands of Canadian dollars)

19. Significant differences between Canadian and United States generally accepted accounting principles, (continued):

(ii) Consolidated statement of changes:

Under Canadian GAAP, the purchase of stock options for cancellation has been reflected on the statement of changes in financial position as a financing activity. Under US GAAP, this transaction would be excluded from financing activities and cash flow from operating activities would decrease \$5,357 (1996 - Nil).

Under Canadian GAAP the issuance of shares in conjunction with acquisitions has been reflected on the statement of changes in financial position as both a financing and investing activity. Under US GAAP, this non-cash transaction would be excluded and cash used for investing activities and provided from financing activities would be reduced by \$996 (1996 - \$16,229).

(iii) Cash interest and income taxes paid:

Cash interest and income taxes paid during the year were \$10,979 and \$55,537, respectively.

(iv) New US Accounting Standards:

(a) In February 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 128, Earnings Per Share, which supersedes APB Opinion No. 15, Earnings Per Share (Opinion 25), and specifies the computation, presentation, and disclosure requirements for earnings per share (EPS). Statement 128 replaces Primary EPS and Fully Diluted EPS under Opinion 25 with Basic EPS and Diluted EPS, respectively. It also requires a reconciliation of the numerator and denominator of the Basic EPS computation to the numerator and denominator of the Diluted EPS computation. Basic EPS, unlike Primary EPS, excludes all dilution while Diluted EPS, like Fully Diluted EPS, reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the entity. SFAS 128 is effective for financial statements for both interim and annual periods ending after December 15, 1997. Earlier application is not permitted. After adoption, all prior period EPS data presented must be restated (including interim financial statements, summaries of earnings and selected financial data) to conform with SFAS 128. The Company has determined the impact of SFAS 128 on the computation of US GAAP EPS for the current and prior periods as disclosed in note 19(b).

(b) In February 1997, the Financial Accounting Standards Board also issued Statement of Financial Accounting Standards No. 129, Disclosure of Information about Capital Structure (SFAS 129), which establishes standards for disclosing information about an entity's capital structure. SFAS 129 is effective for financial statements for periods ending after December 15, 1997. The Company does not expect SFAS 129 to have a significant effect on its disclosures about its capital structure.

(c) In June 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 130, Reporting Comprehensive Income (SFAS 130) which establishes standards for reporting and display of comprehensive income and its various components (revenues, expenses, gains and losses) in a full set of general-purpose financial statements. SFAS 130 is effective for fiscal years beginning after December 15, 1997.

(d) In June 1997, the Financial Accounting Standards Board also issued Statement of Financial Accounting Standards No. 131, Disclosures about Segments of an Enterprise and Related Information (SFAS 131) which establishes new standards for the way information is reported about operating segments in annual financial statements and requires selected information about operating segments to be reported in interim financial statements. It also establishes standards for related disclosures about products and services, geographic areas and major customers. SFAS 131 is effective for financial statements for periods beginning after December 15, 1997. The Company has not determined the impact of SFAS 131 on its segment disclosures in its financial statements.

Royal Group Technologies Limited

U.S. Dollar Reporting

Approximately 57% of the Company's revenues, and 93% of the Company's debt are denominated in United States dollars. To provide investors with information regarding our financial position, results of operations and changes in cash flows for the year in U.S. dollars, we have translated our consolidated balance sheet earnings and changes in cash position statements ("financial statements") into U.S. dollars.

These unaudited financial statements, reported in U.S. dollars, are based on the Company's audited financial statements prepared under Canadian generally accepted accounting principles. As the amounts shown in U.S. dollars are for convenience only, the exchange rate of U.S. \$0.7305, the average rate for fiscal 1997, has been used for the purpose of presentation of the U.S. Dollar amounts in the accompanying financial statements. U.S. dollar amounts shown are not a representation that Canadian dollar balances have, or could have, been converted into U.S. dollars at the translation rate used.

These unaudited financial statements, reported in U.S. dollars, are provided solely for our shareholders' convenience. They are not a substitute for, and do not include the full disclosures contained in, our audited financial statements on pages 22 to 36 of this Annual Report.

U.S. Dollar Reporting

Consolidated Balance Sheets

Years ended September 30, 1997 and 1996
(In thousands of United States dollars)

	1997	1996
Assets		
Cash	\$ 4,062	\$ 13,072
Accounts receivable	128,632	112,809
Inventories	140,471	87,999
Prepaid expenses and deposits	4,073	3,458
	<u>277,238</u>	<u>217,338</u>
Property, plant and equipment	442,153	286,968
Goodwill and other assets	133,975	112,726
	<u>\$ 853,366</u>	<u>\$ 617,031</u>
Liabilities and Shareholders' Equity		
Accounts payable and accrued liabilities	109,341	92,754
Term debt due within one year	661	4,119
	<u>110,002</u>	<u>96,873</u>
Term debt	218,987	104,224
Deferred income taxes	26,424	22,344
Minority interest	24,486	4,694
<i>Shareholders' Equity</i>		
Capital stock	287,539	272,293
Retained earnings	188,397	119,687
Currency translation adjustments	(2,469)	(3,083)
	<u>473,467</u>	<u>388,896</u>
	<u>\$ 853,366</u>	<u>\$ 617,031</u>
Working capital	167,236	120,465
Funded debt ⁽¹⁾	215,587	95,272
Invested capital ⁽²⁾	713,539	488,862

U.S. Dollar Reporting

Consolidated Statements of Earnings

Years ended September 30, 1997 and 1996
(In thousands of United States dollars)

	1997	1996
Net sales	\$ 620,005	\$ 493,155
Cost of sales and operating expenses	(465,966)	(371,106)
Operating margin	154,039	122,049
Amortization	(34,722)	(27,968)
Interest and financing charges	(6,688)	(5,984)
Earnings from operations	112,629	88,098
Income taxes	(39,751)	(31,777)
Earnings before minority interest	72,878	56,321
Minority interest	(1,655)	(1,018)
Net earnings	\$ 71,223	\$ 55,303

Consolidated Statements of Retained Earnings

Years ended September 30, 1997 and 1996
(In thousands of United States dollars)

	1997	1996
Retained earnings, at beginning of year	\$ 119,687	\$ 64,384
Purchase of stock options for cancellation, net of tax	(2,513)	—
Net earnings	71,223	55,303
Retained earnings, end of year	\$ 188,397	\$ 119,687

U.S. Dollar Reporting

Consolidated Statements of Changes in Financial Position

Years ended September 30, 1997 and 1996
(In thousands of United States dollars)

	1997	1996
Cash provided from (used in):		
Operating activities:		
Earnings before minority interest	\$ 72,878	\$ 56,321
Add back items not affecting cash	39,058	30,419
Changes in non-cash working capital balances	(45,358)	(2,422)
Currency translation adjustments	616	(1,595)
	<u>67,194</u>	<u>82,724</u>
Investing activities:		
Acquisitions of property, plant and equipment	(157,516)	(73,035)
Acquisition of non-cash assets	(40,147)	(61,404)
Increase in other assets	(7,452)	(14,487)
	<u>(205,115)</u>	<u>(148,926)</u>
Financing activities:		
Term debt proceeds	113,392	104,251
Term debt repayments	(7,264)	(111,470)
Net investments by minority interests	11,464	(274)
Issuance of shares on public offerings	—	79,442
Share issue costs	—	(2,389)
Issuance of shares on acquisitions	728	11,855
Issuance of shares under stock option plan	14,518	346
Purchase of stock options for cancellation	(3,926)	—
	<u>128,912</u>	<u>81,762</u>
Increase (decrease) in cash	(9,009)	15,560
Cash, (bank indebtedness), beginning of year	13,072	(2,488)
Cash, (bank indebtedness), end of year	<u>4,062</u>	<u>13,072</u>

(1) For the purposes of the calculation funded debt is reduced by cash

(2) Invested capital represents shareholder's equity, minority interest and funded debt

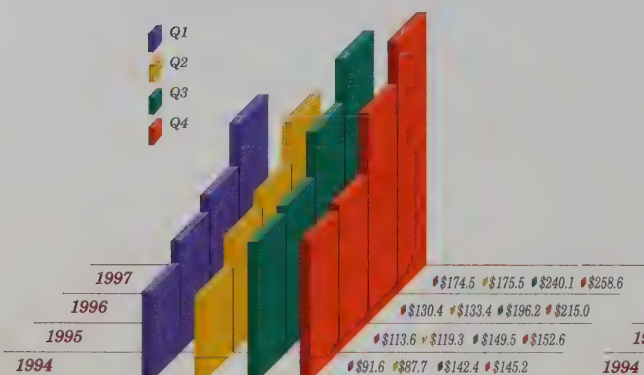
Supplementary Financial Information

Quarterly Data⁽¹⁾

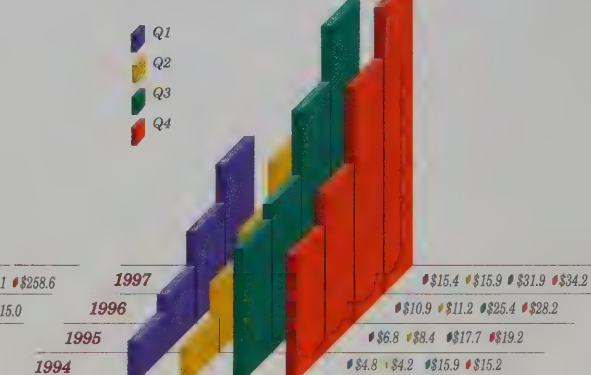
(In thousands of Canadian dollars, except per share)

	Q1	Q2	Q3	Q4	Total
Corporate Operating Results – Fiscal 1997					
Net sales	174,492	175,539	240,098	258,612	848,741
Operating margin	39,308	38,852	63,770	68,938	210,868
Earnings from operations	25,205	25,111	48,979	54,886	154,181
Net earnings	15,434	15,932	31,947	34,186	97,499
Basic earnings per share	\$0.19	\$0.20	\$0.40	\$0.42	\$1.21
Corporate Operating Results – Fiscal 1996					
Net sales	130,401	133,442	196,215	215,034	675,092
Operating margin	27,640	28,232	52,293	58,911	167,076
Earnings from operations	17,339	17,572	39,771	45,917	120,599
Net earnings	10,940	11,155	25,419	28,191	75,705
Basic earnings per share	\$0.15	\$0.15	\$0.32	\$0.36	\$0.98
Corporate Operating Results – Fiscal 1995					
Net sales	113,621	119,343	149,515	152,574	535,053
Operating margin	21,751	22,871	36,910	38,473	120,005
Earnings from operations	11,734	13,740	27,757	28,784	82,015
Net earnings	6,807	8,366	17,686	19,161	52,020
Basic earnings per share	\$0.12	\$0.12	\$0.24	\$0.26	\$0.74
Corporate Operating Results – Fiscal 1994⁽²⁾					
Net sales	91,589	87,666	142,393	145,162	466,810
Operating margin	17,429	16,646	37,570	36,822	108,467
Earnings from operations	8,062	6,946	27,061	24,899	66,968
Net earnings	4,809	4,201	15,901	15,247	40,158
Basic earnings per share	\$0.09	\$0.08	\$0.29	\$0.28	\$0.74

Quarterly Net Sales
(in millions of dollars)



Quarterly Net Earnings
(in millions of dollars)



Nine-Year Summary of Statements of Earnings⁽³⁾

For the years ended September 30

(in thousands of Canadian dollars)

	1997	1996	1995	1994	1993	1992	1991	1990	1989
Net Sales	848,741	675,092	535,053	466,810	368,388	316,564	266,317	261,645	205,105
Cost of sales and operating expenses	(637,873)	(508,016)	(415,048)	(353,968)	(279,730)	(240,038)	(212,128)	(203,869)	(157,806)
Operating margin	210,868	167,076	120,005	112,842	88,658	76,526	54,189	57,776	47,299
Operating margin percentage	24.8%	24.7%	22.4%	24.2%	24.1%	24.2%	20.3%	22.1%	23.1%
Amortization	(47,532)	(38,286)	(28,095)	(23,902)	(20,552)	(18,536)	(17,841)	(13,521)	(9,959)
Interest and financing charges	(9,155)	(8,191)	(9,895)	(17,597)	(20,387)	(19,771)	(25,002)	(21,335)	(13,690)
Earnings from operations	154,181	120,599	82,015	71,343	47,719	38,219	11,346	22,900	23,650
Management shareholder bonuses	0	0	0	(8,079)	(5,446)	(1,979)	(1,578)	(2,454)	(16,014)
Unusual items	0	0	0	5,815	0	0	0	0	0
Earnings before income taxes and minority interest	154,181	120,599	82,015	69,079	42,273	36,240	9,768	20,446	7,636
Income taxes	(54,417)	(43,500)	(29,131)	(21,328)	(15,220)	(12,147)	(1,377)	(10,317)	(3,157)
Earnings before minority interest	99,764	77,099	52,884	47,751	27,053	24,093	8,391	10,129	4,479
Minority interest	(2,265)	(1,394)	(864)	(2,168)	(734)	(722)	(195)	(332)	(621)
Net earnings	97,499	75,705	52,020	45,583	26,319	23,371	8,196	9,797	3,858

(1) Quarterly information is unaudited.

(2) 1994 pre IPO net earnings and operating margin adjusted on a pro-forma basis.

(3) 1994-89 pre IPO net earnings and operating margin are unadjusted on a pro-forma basis.

Supplementary Information

Outstanding Share Information

(as at September 30, 1997 and 1996)

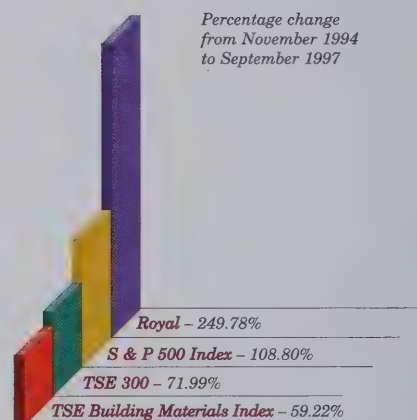
	1997	1996
Multiple Voting Shares	17,635,444	17,635,444
Subordinate Voting Shares	64,439,950	62,674,142
Total shares outstanding	82,075,394	80,309,586

Total options outstanding as at September 30, 1997 are 9,409,056 which were substantially exercisable as to half December 1, 1997, the balance after December 1, 2000.

As of December 31, 1997, 84,903,551 shares were outstanding, reflecting the issue of Subordinate Voting Shares upon exercise of options which vested after year end.

Dividend Policy: Royal's policy is to retain its earnings to finance growth and development of its business and Royal does not expect to pay dividends in the foreseeable future. The Board of Directors will review this policy from time to time in the context of Royal's earnings, financial position and other relevant factors.

Royal Share Performance vs. Market Indices



Trading Data (Stock symbol: RYG)

	High (TSE)	Low (TSE)	Close (TSE)	Volume (000's)
1995				
First Quarter	\$ 11 1/4	\$ 10 3/4	\$ 11	1,785*
Second Quarter	14 7/8	10 3/4	14 5/8	4,918*
Third Quarter	19 1/2	14 1/8	18 7/8	9,121*
Fourth Quarter	18 7/8	16 1/8	17 5/8	5,940*
Total				21,764
1996				
First Quarter	19 7/8	17 1/8	19 3/4	2,478*
Second Quarter	22 7/8	19 5/8	21 5/8	4,850*
Third Quarter	22.15	19.40	20.75	6,820**
Fourth Quarter	23.85	19.05	23.25	4,520**
Total				18,668
1997				
First Quarter	26.40	22.50	25.35	5,526**
Second Quarter	30.50	24.90	29.50	5,630**
Third Quarter	38.75	27.00	37.00	8,391**
Fourth Quarter	43.50	33.85	39.35	7,738**
Total				27,285

* TSE & ME

** TSE, ME & NYSE

Corporate Information

Board of Directors

Vic De Zen

Royal Group Technologies Limited
Chairman, President and
Chief Executive Officer

Sergio De Zen

Royal Group Technologies Limited
Senior Executive Vice President
and Chief Operating Officer

Gary Brown*

Royal Group Technologies Limited
Executive Vice President
and Chief Financial Officer

Douglas Dunsmuir

Royal Group Technologies Limited
Executive Vice President
and General Counsel

Gwain Cornish

Royal Group Technologies Limited
Senior Vice President

Mario Cadorette

Plastibec Ltd.
Vice President and General
Manager

Gregory Sorbara*

The Sorbara Group, Partner

Ronald Slaght*

Lenczner Slaght Royce Smith
Griffen Barristers, Partner

Ralph Brehn

Retired former President
of Hunter Douglas Canada Ltd.

Irvine Hollis

Former President of Duracell Inc.
Presently Management Consultant,
I Hollis Management
Consultants Inc.
Management Consultant

* Member of Audit Committee

Executive Officers

Vic De Zen

Chairman, President and
Chief Executive Officer

Sergio De Zen

Senior Executive Vice President
and Chief Operating Officer

Gary Brown

Executive Vice President and
Chief Financial Officer

Douglas Dunsmuir

Executive Vice President
and General Counsel

Gwain Cornish

Senior Vice President

Transfer Agent and Registrar

Information regarding your share-
holdings may be obtained by writing
or calling the transfer agents:

CIBC Mellon Trust Company
393 University Ave., 5th Floor,
Toronto, Ontario M5G 2M7

Tel: 1-800-387-0825

or (416) 813-4500

Facsimile: (416) 813-4555

ChaseMellon

Shareholder Services

Stock Transfer Administration

450 West 33rd Street, 15th Floor

New York, New York 10001

Tel: 1-800-387-0825

Shareholder Inquiries

Responses to shareholder inquiries
as well as information published
by the company for its sharehold-
ers and others, including annual
reports, quarterly reports and
annual information forms may be
obtained from:

Investor Relations

Royal Group Technologies Limited
1 Royal Gate Blvd.,

Woodbridge, Ontario L4L 8Z7

Telephone: (905) 264-0701

Facsimile: (905) 264-0702

Annual Meeting

The annual meeting of sharehold-
ers of Royal Group Technologies
Limited will be held February 12,
1998. The meeting notice and
proxy materials were mailed to
shareholders with this report.

Stock Exchange Listings

Subordinate Voting Shares are
listed on The Toronto Stock
Exchange, the New York Stock
Exchange and the Montreal
Exchange.

Symbol: RYG

Royal was added to the TSE 300
Index in June of 1995.

Financial Information

Security analysts and representa-
tives of financial institutions are
invited to contact:

Gary Brown

Executive Vice President
and Chief Financial Officer
1 Royal Gate Blvd.,
Woodbridge, Ontario L4L 8Z7
Telephone: (905) 264-0701
Facsimile: (905) 264-0702

Mark Badger

Vice President,
Corporate Communications
1 Royal Gate Blvd.,
Woodbridge, Ontario L4L 8Z7
Telephone: (905) 264-0701
Facsimile: (905) 264-0702

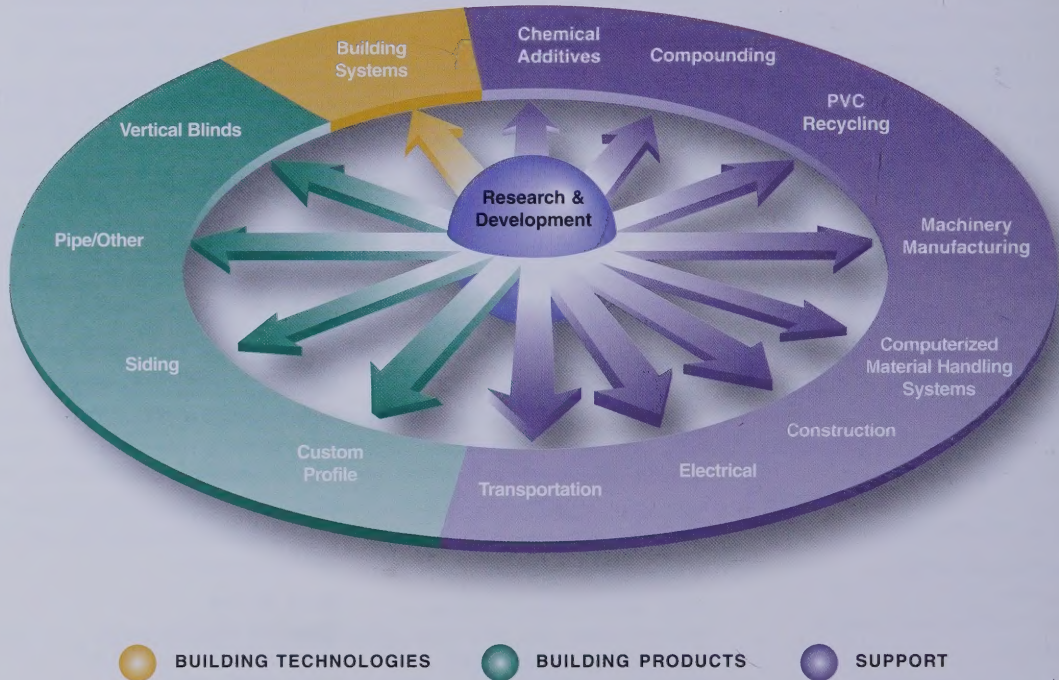
Auditors

KPMG

Suite 3300, Commerce Court West
199 Bay Street
Toronto, Ontario M5L 1B2

Ce rapport est également publié
en français.

Royal Group Technologies Wheel of Integration



Royal is an innovative, technology-based growth company with an increasing global focus. To ensure future growth prospects, Royal is committed to expanding its existing operations in North America and establishing operations globally.



Royal Group
TECHNOLOGIES